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Department of Revenue and Taxation
State Tax Commission

Single Audit Management Letter

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LEGISLATIVE AUDITS' MANAGEMENT LETTER

DEPARTMENT OF REVENUE AND TAXATION STATE TAX COMMISSION

PURPOSE AND SCOPE – In planning and performing our audit of the statewide general-purpose financial statements of the State of Idaho for the fiscal year ended June 30, 2001, we completed certain financial audit procedures on the Department of Revenue and Taxation – State Tax Commission's financial activities that occurred during that fiscal year. The scope of work was limited to the segments of the State Tax Commission's financial operations determined material to the statewide general-purpose financial statements. Therefore, we considered the internal control structure to determine appropriate procedures and required tests that, along with procedures performed at other State agencies, would allow us to express our opinion on the statewide general-purpose financial statements prepared by the State Controller's Office and not to provide assurance on the Commission's internal control. *(Because this is not a full report, but an interim management letter on the agency, there are no other attachments to this letter.)*

CONCLUSION - This letter contains one finding and recommendation for monitoring the distribution of sales taxes to the revenue sharing account and compliance with Idaho Code. Although we present one finding and recommendation, we conclude that the financial operations of the State Tax Commission meet accepted standards and that the Commission substantially complies with laws, regulations, rules, grants, and contracts for which we tested compliance.

FINDINGS AND RECOMMENDATIONS – The one finding and recommendation is summarized as follows:

1. \$1.5 million in sales tax revenue was not allocated in accordance with Idaho Code.

The Idaho State Tax Commission collects sales tax revenue and, in accordance with I.C. § 63-3638, distributes 13.75% of these revenues to the Revenue Sharing Account. The money deposited into the Revenue Sharing Account is distributed quarterly to Idaho cities, counties and other special taxing districts based on the criteria in the Idaho Code.

The Commission implemented new accounting system software during FY 01. This software is used to account for tax revenues and to make allocations to the appropriate accounts. A coding error within the new system caused an incorrect journal entry on each allocation since the new system started in May 2001. This error resulted in \$1.5 million in sales tax distribution going to the State General Fund that should have gone to the Revenue Sharing Account. This error occurred due to incorrect coding in the new accounting system software and the lack of reconciliation and

monitoring of the system results. After we brought this to the Commission's attention the sales tax distribution was corrected.

We recommend that the State Tax Commission review all tax allocation tables and recurring journal entries for compliance with applicable Idaho Code. Also, the Commission should perform periodic reconciliations and reasonableness tests to ensure that all allocations are accurate.

AGENCY RESPONSE – The Tax Commission is in general agreement with the contents of the report. The Commission corrected the error in the sales tax distribution and fixed the allocation coding in the system. A process is being started to test each allocation for reasonableness. (See agency response attached.)

PRIOR FINDINGS AND RECOMMENDATIONS – The prior audit report contained two findings and recommendations and are summarized as follows:

1. Motor fuels penalty and interest were not uniformly applied in compliance with Idaho Code, resulting in \$43,000 in under-collections for the returns tested. Idaho Code § 63-3046 prescribes the method for assessing penalty and interest on late tax returns, and specifies an assessment of "5% of the total amount of the deficiency in addition to the deficiency." The Commission was not consistently applying penalty and interest to motor fuel tax returns in accordance with Idaho Code. For example, several returns from a motor fuel dealer were received late, and the \$42,600 penalty and interest charges assessed by the computer system were deleted without documentation explaining why. The Commission has reviewed its policies and modified its procedures for applying penalties and interest to ensure compliance with Idaho Code. In addition, the new computerized tax system calculates penalties and interest on all tax types on the appropriate date each month. **CLOSED**
2. Recording errors and poor follow-up controls resulted in an understatement of the fixed-asset inventory. The Commission maintained a fixed-asset inventory system separate from the State's fixed-asset system. Certain procedures were included to maintain and complete an annual physical inventory verification as required by Idaho Code § 67-5746 and Department of Administration guidelines. However, internal control weaknesses resulted in an understatement of the fixed-asset inventory. For example, a leased computer valued at \$350,000 was returned to the leasing company but was still listed on the inventory, and a purchased computer valued at \$732,960 was mistakenly deleted from the inventory. The Commission is in the process of replacing its fixed-asset inventory system. As part of its conversion to the new accounting software (Navision) the system will be integrated with the procurement system which will help facilitate accurately recording assets. The project completion date for this conversion is April 30, 2002. **IN PROCESS**

OTHER ISSUES – In addition to the findings and recommendations, we discussed other less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This letter is intended solely for the information and use of the State Tax Commission and the Idaho Legislature, and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the Commission and its staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:
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